

**Tennessee State Employees Group  
Insurance Program**

**Tennessee Local Education Employees Group Insurance Program**

**Tennessee Local Government Employees Group Insurance Program**

**For The Period  
January 1, 1996, Through December 31, 1997**

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January 21, 2000

The Honorable Don Sundquist, Governor  
and  
Members of the General Assembly  
and  
The Honorable John Ferguson, Commissioner  
Department of Finance and Administration  
and  
Members of the Local Government Insurance Committee  
and  
Members of the Local Education Insurance Committee  
and  
Members of the State Insurance Committee  
State Capitol  
Nashville, Tennessee 37243

Ladies and Gentlemen:

In accordance with the contract between the State of Tennessee and Blue Cross and Blue Shield, the Division of State Audit conducts examinations of the State Health Insurance Plans.

Submitted herewith is the report of the examination of the State Health Insurance Plans for the period January 1, 1996, through December 31, 1997. Our examination resulted in no audit findings. However, we reported other less significant matters of noncompliance in a separate letter to management of the Department of Finance and Administration, Division of Insurance Administration.

Sincerely,

John G. Morgan  
Comptroller of the Treasury

JGM/pn  
99/010

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

Audit Report

**State Health Insurance Plans**

For the Period January 1, 1996, Through December 31, 1997

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## **Audit Findings**

The examination contains no findings.

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"Audit Highlights" is a summary of the audit report. To obtain the complete audit report which contains all findings, recommendations, and management comments, please contact

Comptroller of the Treasury, Division of State Audit  
1500 James K. Polk Building, Nashville, TN 37243-0264  
(615) 741-3697

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# **STATE HEALTH INSURANCE PLANS**

## **Tennessee State Employees Group Insurance Program Tennessee Local Education Employees Group Insurance Program Tennessee Local Government Employees Group Insurance Program**

**For the Period January 1, 1996, Through December 31, 1997**

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# **STATE HEALTH INSURANCE PLANS**

## **Tennessee State Employees Group Insurance Program Tennessee Local Education Employees Group Insurance Program Tennessee Local Government Employees Group Insurance Program**

**For the Period January 1, 1996, Through December 31, 1997**

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### **INTRODUCTION**

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#### **PURPOSE AND AUTHORITY OF THE EXAMINATION**

The Standard Terms and Conditions of the Agreement between Blue Cross and Blue Shield (the Contractor) and the State of Tennessee specify that the books and records of the Contractor, insofar as they relate to the administration of the State Health Insurance Plans, are subject to audit by the Tennessee Comptroller of the Treasury.

Under its agreement with the state, the Contractor has asserted that it is in compliance with stated requirements regarding administration of the state health plans. The purpose of our examination is to render an opinion on the Contractor's assertions that it has complied with certain financial-related requirements of the contract. The contract also specifies certain obligations of the state. Our examination also covers the state's assertions that it has complied with its obligations.

#### **BACKGROUND**

The Tennessee State Employees Group Insurance Program, the Local Education Employees Group Insurance Program, and the Local Government Employees Group Insurance Program are administered by the Department of Finance and Administration and are authorized by Sections 8-27-201, 8-27-301, and 8-27-207, *Tennessee Code Annotated*. The State Employees Group Insurance Program serves approximately 42,000 participants; the Local Education Employees Group Insurance Program, approximately 27,500 participants; and the Local Government Employees Group Insurance Program, approximately 6,400 participants. Blue Cross and Blue Shield of Tennessee, Inc., processes medical claims; and Provident Life and Accident Insurance Company, Inc., administers basic life insurance, special accident insurance, and optional special accident insurance. The insurance programs also offer employees the option of joining a health maintenance organization through participation in either Prudential Health Care, United Healthcare, HealthSource, or HMO Blue, depending on place of residence.

The programs are governed by the State Insurance Committee, the Local Education Insurance Committee, and the Local Government Insurance Committee, respectively. The State Insurance Committee is composed of the following:

- The Governor
- The Comptroller of the Treasury
- The State Treasurer
- The Commissioner of Commerce and Insurance
- The Commissioner of Finance and Administration
- The Commissioner of Personnel
- A person to be named by the board of directors of the Tennessee State Employees Association
- Two state employees selected under the procedure for the election of trustees of the Consolidated Retirement System
- One employee of the University of Tennessee system or the Board of Regents system selected under a procedure developed by the Tennessee Higher Education Commission and approved by the State Insurance Committee

The Local Education Insurance Committee is composed of the following:

- The Governor
- The Comptroller of the Treasury
- The State Treasurer
- The Commissioner of Finance and Administration
- A representative of local school boards selected by the Tennessee School Boards Association
- Three teachers selected by the Tennessee Education Association

The Governor has authority to delegate the Commissioner of Education as his representative.

The Local Government Insurance Committee is comprised of the following:

- The Governor
- The Comptroller of the Treasury
- The State Treasurer
- The Commissioner of Finance and Administration
- A representative of the Tennessee Municipal League
- A representative of the Tennessee County Services Associations

All three committees act separately but coordinate their activities to provide insurance coverage for each group. The director of the State Employees Group Insurance Program and his staff perform the daily operations for the State Insurance Committee, the Local Education Insurance Committee, and the Local Government Insurance Committee.

At present, Blue Cross and Blue Shield of Tennessee, Inc., headquartered in Chattanooga, Tennessee, processes medical claims for the programs and receives a

monthly administrative fee based on the number of covered employees. Since October 1, 1985, Blue Cross and Blue Shield has provided access to a preferred provider organization for program participants and operated the plans' utilization management activities.

The contract provisions affecting payment for administrative and medical services for the three group insurance programs are summarized below:

1. Blue Cross and Blue Shield is to be paid an administrative and utilization management fee per month per subscriber of \$5.39 from January 1 through February 29, 1996; \$8.50 from March 1 through December 31, 1996; and \$10.00 from January 1 through December 31, 1997. The state is responsible for making payments based on its count of the number of subscribers.
2. Blue Cross and Blue Shield agrees to establish and maintain a preferred provider organization (PPO) for plan participants. The state and plan participants are to benefit financially from any contracts between Blue Cross and Blue Shield and health care providers.

A performance standard was included in the State Employees Group Insurance Program contract. Blue Cross and Blue Shield guaranteed it would hold cost increases for medical services to no more than a percentage to be calculated for the period January 1 through December 31, 1996. The allowable percentage of increase was to be determined by adding half of the percentage increase of 1995 costs over 1994 costs to half of the annual percentage increase in the medical cost component of the Consumer Price Index and adding two percent to the result. Failure to attain this standard would result in Blue Cross and Blue Shield refunding excess costs to the state.

The contract specifies the method to be used to compute compliance with this performance standard. For each "performance" period, which is the period over which the standard is measured, there is a defined "base" period. In short, medical costs in the base period are increased by 10.88 percent and compared to the costs in the performance period. For the performance period January 1 through December 31, 1996, the base period is January 1 through December 31, 1995.

The contract did not contain any financial guarantees regarding cost increases for the period January 1 through December 31, 1997.

## **SCOPE OF THE EXAMINATION**

Our examination covers certain financial-related requirements contained in the contract between the state and the Contractor for the period January 1 through December 31, 1996. The requirements covered are referred to under management's assertions specified later in the Independent Accountant's Report. Our examination does not cover clinical or quality of care matters.



## **PRIOR EXAMINATION FINDING**

Each audit of the State Health Insurance Plans since 1985 has contained a finding on deficiencies in the subscriber count and the administrative fee payments and billings. There will always be some subscriber reporting difficulties with an insurance program of this size. However, we believe the State Health Insurance Plan has improved its system to the point where discrepancies are no longer material. The prior examination finding will not be repeated.

## **PERFORMANCE STANDARDS RESULTS**

The tabulation of performance standards referred to in the background information above was completed by Blue Cross and Blue Shield and is shown in Schedule 1. An audited tabulation completed by the Division of State Audit is shown in Schedule 2. An explanation of differences is given following the schedules. The differences did not change the settlement amount, which was determined to be zero.

The difference between the computations by State Audit and Blue Cross and Blue Shield results from an error in the computation of charge audit recoveries and the source used for average contracts. As part of its administrative function, Blue Cross and Blue Shield periodically audits hospital claims for services provided to its plan participants. Discrepancies may result in refunds from the hospitals to Blue Cross and Blue Shield, which then must refund the appropriate amount to the state and its other contractors. The contract performance standards specify that the state employees' charge audit recoveries from the base period should be subtracted from recoveries in the performance period and added to total medical payments. The Division of State Audit has reviewed charge audit recoveries for the settlement period 1996 and has determined the following amounts due to the respective programs, before interest: \$2,144,717 to the State Employees Group Insurance Program; \$1,195,821 to the Local Education Employees Group Insurance Program; and \$526,493 to the Local Government Employees Group Insurance Program. Blue Cross and Blue Shield has correctly remitted these monies to the respective programs. Blue Cross and Blue Shield incorrectly computed and applied in the performance calculation the state employees charge audit recovery to be \$2,244,579 as a result of an inaccurate classification of a local government recovery and the addition of interest to the recovery. This discrepancy did not result in a settlement due to or from Blue Cross.

The contract performance standards state that the average contracts should be determined from enrollment certified by the state. The Division of State Audit has reviewed the enrollment calculations of the Department of Finance and Administration. The difference between our audited contract count and the Insurance Plan's count was not considered material. We will report our count in a separate letter to management.

**Schedule 1****Amount Due  
Computed by Blue Cross and Blue Shield**

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	<u>Performance Period</u>	<u>Base Period</u>
	<u>January 1 through December 31, 1996</u>	<u>January 1 through December 31, 1995</u>
Total Medical Payments	\$164,260,431	\$159,149,948
Less Adjustment:		
Inflation (Par)	63,446	-
Inflation (Non-Par)	2,696	-
Charge Audit Recoveries	2,244,579	1,836,573
Payments Out of Contract	<u>704,461</u>	<u>363,036</u>
Net Payments	\$161,245,249	\$156,950,339
Average Contracts	47,370	48,524
Payment per contract	(A) \$ 3,403.93	\$ 3,234.46
Target Payment per Contract		(B) \$ 3,475.11
Difference (A minus B)		\$ (71.18)
Average Contracts	<u>47,370</u>	
Settlement Provision	\$ 0.00	

**Schedule 2****Amount Due  
Computed by Division of State Audit**

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	<u>Performance Period</u>	<u>Base Period</u>
	<u>January 1 through December 31, 1996</u>	<u>January 1 through December 31, 1995</u>
Total Medical Payments	\$164,260,431	\$159,149,948
Less Adjustment:		
Inflation (Par)	63,446	-
Inflation (Non-Par)	2,696	-
Charge Audit Recoveries	398,475	226,238
Payments Out of Contract	<u>704,461</u>	<u>363,036</u>
Net Payments	\$163,091,353	\$158,560,674
Average Contracts	46,923	47,645
Payment per Contract	(A) \$ 3,475.72	\$ 3,327.96
Target Payment per Contract		(B) \$ 3,690.08
Difference (A minus B)	\$ (214.35)	
Average Contracts	<u>46,923</u>	
Settlement Provision	\$ 0.00	
Blue Cross Remittance	Not applicable	

## **Independent Accountant's Report**

October 5, 1999

The Honorable Don Sundquist, Governor  
and  
Members of the General Assembly  
and  
The Honorable John Ferguson, Commissioner  
Department of Finance and Administration  
and  
Members of the Local Government Insurance Committee  
and  
Members of the Local Education Insurance Committee  
and  
Members of the State Insurance Committee  
State Capitol  
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have examined the books and records of the Contractor and the state to determine whether each complied with the financial-related contract requirements for administering the state health care plan.

In its representation letter dated October 5, 1998, Blue Cross and Blue Shield asserted that it complied with the following financial-related requirements during the period January 1, 1996, through December 31, 1997:

1. Refunds due to the state were properly remitted.
2. Claims have been recognized in the period specified by the contract.
3. Specific contract performance standards of the State Employees Group Insurance Program in regard to annual payment increases for medical services have been accurately measured.

October 5, 1999

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4. Claims for services rendered to state group insurance subscribers were processed correctly, including (where applicable) the proper application of deductibles, preferred discounts, and pursuit of coordination of benefits.
5. Claims have been processed timely in compliance with the provisions of the contract regarding timeliness of adjudication.

In its representation letter dated August 28, 1998, the state asserted that it has complied with the following financial-related contract requirements during the period January 1, 1996, through December 31, 1997:

1. Subscriber counts have been accurately computed.
2. Proper payments have been made to the Contractor for administrative costs.

Management is responsible for ensuring compliance with these aforementioned requirements. Our responsibility is to express an opinion on management's assertions about their organizations' compliance based on our examination.

Our examination was made in accordance with standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the Contractor's and the state's compliance with the aforementioned requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the compliance of the Contractor, or the state, with specified requirements.

In our opinion, management's assertions that the Contractor and the state complied with the aforementioned requirements for the period January 1, 1996, through December 31, 1997, is fairly stated, in all material respects.

This report is intended solely for the use of the Tennessee General Assembly and the Tennessee Department of Finance and Administration and is not intended and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

Arthur A. Hayes, CPA, Director  
Division of State Audit

AAH/pn